



STATE AUDIT ADDENDUM REPORT: SIXTH JUDICIAL DISTRICT DEPARTMENT

Report. The Auditor of State released an [Addendum to a Report on a Review of the Sixth Judicial District Department of Correctional Services](#) July 14, 2015.

Background. This report is a follow-up to a [Special Report on a Review of the Sixth Judicial District Department of Correctional Services](#) released January 10, 2014. Click [here](#) for a summary of that report as published in the **FISCAL UPDATE** on January 28, 2014. That report covered the period from FY 2010 through FY 2014. The Addendum reviews transactions through FY 2014 and is the result of District Department employees contacting the Office of the Auditor of State after the original report was released, expressing additional concerns regarding certain transactions related to:

- More Sixth Judicial District Department employees performed work for the nonprofit Community Corrections Improvement Association (CCIA) than were reported in the original audit.
- Administration of the Batterers Education Program (BEP). Each of the eight Judicial District Departments is required to provide a BEP per Iowa Code section [708.2B](#).
- Financial transactions at Hope House, a residential facility operated by the Sixth Judicial district Department.
- Contracts for vending and laundry services with CCIA.
- The District Department's buildings, including the ANCHOR Center.
- Disposition and administration of forfeiture funds.
- Corrective action was not taken related to excess vacation and sick leave accruals for nonbargaining unit employees.

Findings. The original report:

- Calculated there were \$776,000 of improper disbursements and \$158,000 of potential improper liabilities by the Sixth CBC District Department. It could not be determined if more improper disbursements occurred because of inadequate records. Of the estimated improper disbursements, \$563,000 was made on behalf of the CCIA. This amount included \$444,000 for calculated payroll costs for certain management employees and \$119,000 estimated for District Office space used by the CCIA.
- Stated three Board members serve on both the CCIA Board of Directors and the Sixth CBC Board. The former District Director serves as the Executive Director of the CCIA. Routine interaction occurs between the two entities, and employees of both entities perform functions for either entity. The report states the Sixth CBC District Board "failed to exercise proper fiduciary oversight."
- Vacation accrual rates are higher than allowed by law in the First, Fifth, and Sixth CBC District Departments. The First and Sixth CBC District Departments have a higher sick leave accrual rate than allowed by law. The report states the First and Fifth CBC Districts will be reviewed separately. Higher sick leave accrual rates permit employees to have a larger sick leave balance to use in participating in the Sick Leave Incentive Program (SLIP) upon retirement and impact the financial liability of the Districts. Higher vacation accrual rates impact the actual expenses and liabilities of the Districts.
- The CCIA reimbursed the Sixth CBC District Department for health and dental insurance costs of CCIA employees. The CCIA employees were included in the Sixth CBC District's payroll records. The CCIA employees were covered under the State's health and dental insurance plans and should not have been.

Subsequent Findings. In the Addendum:

- Identifies an additional \$1.2 million of improper disbursements. Almost all of total is for payroll costs paid by the District Department on behalf of CCIA for the period FY 2001 through FY 2014.
- Found an additional \$171,000 of potential improper liabilities related to excess vacation and sick leave accrual. It could not be determined if more improper disbursements occurred because of inadequate records.

- Calculates the District Department could have saved \$285,000 if it had administered the BEP rather than contracting those services out to the CCIA.
- Provides an update of the recommendations contained in the original report, including those recommendations that have not been addressed by the District Department. While certain changes have been made, the Addendum states, "However, other District policies have not sufficiently addressed concerns identified in the report issued on January 10, 2014, such as management employees being able to accrue 80 hours of vacation in excess of the maximum vacation accrual specified in section [70A.1](#) of the Code."

The Addendum presents detailed findings concerning the relationship between the Sixth Judicial District Department and the CCIA, the BEP, payroll costs including payment of District Department employees for time spent working on the CCIA programs such as Children Of Promise, grant cash match contributions between the CCIA and the Sixth Judicial District Department, and District operations. The latter include a review of:

- Paid time off - vacation and sick leave accruals in excess of the rate permitted by law.
- Payments to the Iowa Public Employee Retirement System (IPERS) for noncovered wages.
- The ANCHOR Center is a residential treatment facility for offenders on parole or probation that have mental health issues. Per the Addendum, the General Assembly appropriated \$2.3 million for design and construction of the ANCHOR Center, and approximately \$1.5 million to operate it. In July 2009 the District Department opened the building as an outpatient facility rather than a residential facility. In March 2014 the District Department remodeled the kitchen and basketball court. The Addendum states, "It is not clear why the \$2.3 million appropriated by the Legislature during FY 2007 and FY 2008 was not sufficient to construct a facility which would function as intended by the Legislature."
- The HOPE House is a residential facility operated by the District Department that has a policy for a Residential Loan Fund. The policy was not followed; there was no policy to address uncollectible loans and records maintenance; internal controls were not followed.
- Forfeiture funds seized by the District Department's High Risk Unit under Iowa Code chapter [809A](#). The funds were properly deposited and the expenditure of the funds complied with Iowa Code chapter [809A](#). However, internal control procedures were not followed.
- District buildings are maintained by the District Department from its general operating funds.
- Vending and laundry services were contracted out to the CCIA and the CCIA made annual payments to the District Department. The Auditor's Office was not able to calculate the net profits received by the CCIA.

Conclusions. The Addendum concludes that the status of the District Departments are ambiguous. Are they state agencies or local governmental entities? The status should be clarified by the General Assembly. The Department of Corrections (DOC) should continue to oversee the District Departments. Currently, the DOC contracts with each of the eight District Departments using a Purchase of Service (POS) agreement. There are changes to the POS contracts that could be made to improve State oversight. The District Department Boards have a fiduciary responsibility over the District Department's funds, adherence to the mission, oversight of operations, and maintain the public's trust. The Addendum indicates many of the financial problems in the District Department were the result of management decisions relating to the CCIA.

Recommendations. The Addendum provides recommendations:

- Oversight. The Addendum states, "The Board failed to exercise proper fiduciary oversight." The Board needs to exercise due care and require documentation before making decisions that impact the financial position of the District Department. Appropriate policies and procedures need to be adopted and adhered to in order to ensure the District Department does not pay for costs associated with the CCIA.
- Job duties. The District Department should implement policies related to timesheets that indicate allocation of time between programs. The District Department needs to ensure financial independence from the CCIA.
- Vacation and sick leave accruals. All District Department employees should accrue vacation and sick leave at the correct rates and maximum vacation accruals should not be exceeded. The District

Department needs to ensure that IPERS deductions are only applied to covered wages. The District Department should consult with the IPERS staff to properly adjust IPERS deductions that were paid for noncovered wages.

- Forfeiture funds. The District Department's High Risk Unit is involved with the collection of forfeiture funds. The District Department needs to ensure all forfeitures and seizures have detailed documentation and that all deposits are made timely. The District Department should develop policies and procedures for the evidence room.
- BEP. Before October 2012, the District Department contracted with the CCIA to administer the BEP. The District Department should ensure the BEP is administered in the most effective and cost-efficient manner, and proper tracking of BEP funds occurs. Supporting documentation needs to be maintained.
- Hope House. Written policies and procedures for the Loan Fund need to be developed and maintained. The District Department should comply with acceptable internal control procedures using existing staff.
- Youth Leadership Model Programs. The District Department contracted with the CCIA for this program after funding was eliminated by the General Assembly. All revenue and expenses for the program were not tracked. Documentation was not available for review. The District Department should track all budgets for all programs. The District Department should use available funds to provide services to adult offenders, unless the General Assembly directs otherwise. Supporting documentation needs to be maintained.

Additional Information. The report has been filed with the Office of the Attorney General. The Office of the Auditor of State published a [Report on a Review of the Judicial Districts of Department of Correctional Services](#) on July 1, 2015. Click [here](#) for a summary of that report's findings as published in the **FISCAL UPDATE News Article** dated July 2, 2015.

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